

# 360 CAPITAL OFFICE FUND

360 Capital Office Fund comprises  
360 Capital Office Fund (ARSN 106 453 196)  
and its controlled entities



# 360 CAPITAL OFFICE FUND

## Interim Financial Report For the half year ended 31 December 2014

360 Capital Office Fund comprises 360 Capital Office Fund (ARSN 106 453 196) and its controlled entities.

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## **360 Capital Office Fund and its controlled entities**

### **Responsible Entity report**

#### **For the half year ended 31 December 2014**

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The Directors of 360 Capital Investment Management Limited (“CIML”), the Responsible Entity, present their report together with the interim financial report of 360 Capital Office Fund (ARSN 106 453 196) and its controlled entities (“the Fund”) (ASX:TOF) for the half year ended 31 December 2014.

#### **Directors**

The following persons were Directors of the Responsible Entity during the half year and up to the date of this report, unless otherwise stated:

David van Aanholt (Chairman)

Tony Robert Pitt

William John Ballhausen

Graham Ephraim Lenzner

Andrew Graeme Moffat

#### **Principal activities**

During the half year, the principal activity of the Fund was investment in commercial office properties within Australia. There have been no significant changes to the principal activities during the period.

#### **Operating and financial review**

The statutory profit attributable to the unitholders of the Fund for the half year ended 31 December 2014 was \$3.7 million (December 2013: \$4.6 million). The statutory profit for the half year ended 31 December 2014 compared to the prior comparative period reflected an increase in rental income, reduced finance costs and the write-off of transaction costs associated with the settlement of 52-56 Railway Parade, Burwood. The operating profit (profit before specific non-cash items and significant items) was \$6.7 million (December 2013: \$0.1 million loss).

Operating profit is a financial measure which is not prescribed by Australian Accounting Standards (“AAS”) and represents the profit under AAS adjusted for specific non-cash items and significant items. The Directors consider operating profit to reflect the core earnings of the Fund and it is used as a guide to assess the Fund’s ability to pay distributions to unitholders.

The following table summarises key reconciling items between statutory profit attributable to the unitholders of the Fund and operating profit. The operating profit information in the table has not been subject to any specific review procedures by the Fund’s auditor but has been extracted from Note 7: Segment reporting of the financial statements for the half year ended 31 December 2014, which have been subject to review, refer to page 26 for the auditor’s review report on the financial statements.

## 360 Capital Office Fund and its controlled entities

### Responsible Entity report

For the half year ended 31 December 2014

#### Operating and financial review (continued)

	31 December 2014 \$'000	31 December 2013 \$'000
<b>Profit attributable to the unitholders of the Fund</b>	<b>3,652</b>	<b>4,603</b>
<b>Specific non-cash items</b>		
Net loss/(gain) on fair value of investment properties	741	(4,502)
Net gain on fair value of rental guarantee net of cash received	388	-
Net loss/(gain) on fair value of derivative financial instruments	811	(208)
Amortisation of borrowing costs	125	201
Straight-lining of lease revenue	(45)	(298)
Amortisation of incentives and leasing fees	50	114
<b>Significant items</b>		
Net loss on sale of investment property	1,019	-
<b>Operating profit (profit before specific non-cash and significant items)</b>	<b>6,741</b>	<b>(90)</b>

The key financial highlights for the half year ended 31 December 2014 include:

- Profit attributable to the Unitholders of the Fund of \$3.7 million, representing 4.7 cents per unit (“cpu”);
- Operating profit of \$6.7 million representing 8.7 cpu;
- Distributions of \$6.6 million, representing 8.5 cpu;
- Net assets of \$162.6 million;
- Net tangible assets (“NTA”) per unit of \$2.10 (June 2014: \$2.14 per unit);
- ASX closing price at 31 December 2014 of \$2.06 per Unit;
- Gearing<sup>1</sup> of 4.3%; and
- On market buy back of 405,190 units for \$0.8 million.

The key operational highlights for the half year ended 31 December 2014 include:

- The Fund settled the sale of 52-56 Railway Parade, Burwood for \$80.0 million to a private developer on 2 October 2014 with net proceeds being utilised to reduce debt;
- The Fund exchanged a conditional contract for the acquisition of 576 Swan Street, Richmond, Melbourne (Property) for \$46.5 million on 16 December 2014. The property was subsequently settled on the 17<sup>th</sup> of February 2015 using the Fund’s existing debt capacity;
- Lease of 1,396 square metres (“sqm”) at 485 Kingsford Smith Drive, Hamilton, QLD expected to be finalised in February 2015, for 10 years, increasing the WALE<sup>2</sup> of the property from 8.2 to 9 years;
- Maintained strong occupancy<sup>3</sup> of 100.0%;
- Increased WALE from 4.2 to 4.7 years<sup>4</sup>; and
- Portfolio WACR<sup>5</sup> of 8.25%.

1. Gearing: Borrowings less cash divided by total assets less cash

2. WALE: Weighted average lease expiry by income

3. Occupancy by area, including the acquisition of B8, 576 Swan Street, Richmond VIC and excluding the sale of 53-56 Railway Parade, Burwood during the period

4. Including the acquisition of B8, 576 Swan Street, Richmond VIC during the period

5. WACR: Weighted average capitalisation rate by value, including the acquisition of B8, 576 Swan Street, Richmond VIC during the period

## **360 Capital Office Fund and its controlled entities**

### **Responsible Entity report**

#### **For the half year ended 31 December 2014**

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##### ***Property Portfolio***

The portfolio maintained its 100.0% occupancy over the period, with the acquisition<sup>1</sup> of B8, 576 Swan Street, Richmond VIC increasing the WALE of the portfolio from 4.2 years to 4.7 years. The Fund has no expiries within the 2015 financial year ("FY15") with a key focus on the Department of Environment at 33 Allara Street whose lease expires in December 2015. As no formal lease agreement has been reached, the Fund has commenced a formal leasing campaign for the Department of Environment tenancy.

The WACR of the portfolio firmed from 8.7% to 8.25% as a result of the acquisition<sup>1</sup> of B8, 576 Swan Street, Richmond VIC as the valuations of the balance of the portfolio remain unchanged from June 2014.

##### ***Property acquisition and disposal***

During the Initial Public Offering the Fund identified significant residential upside in its only non-core asset 52-56 Railway Parade, Burwood. Shortly after listing, the Fund launched an on-market sales campaign to dispose of the asset. The Fund exchanged contracts in June 2014 for a sale price of \$80.0m, reflecting; a premium of 32.7% or \$19.7 million over the June 2013 book value; subsequently settling the sale of the asset in October 2014.

The sale removed much of the Fund's leasing risk and on-going capital expenditure requirements whilst increasing the Fund's NTA. The sale provided the Fund with significant debt capacity to pursue higher quality suburban assets with superior income streams.

On 16 December 2014 the Fund exchanged conditional contracts for the acquisition of B8, 576 Swan Street, Richmond VIC for \$46.5 million. The acquisition provides the Fund with a newly constructed A-grade suburban asset in the Melbourne suburb of Richmond. The property is 100.0% leased to GE Capital Finance and Forever New Clothing with a WALE of 7.2 years. The property was externally valued as at 28 November 2014 for \$46.5 million reflecting an initial yield of 7.7%. The property was subsequently settled on the 17<sup>th</sup> of February 2015 using the Fund's existing debt capacity.

The Fund will continue its focus on A grade suburban office assets providing Unitholders with security of income.

##### ***Property valuations***

The Fund's properties were valued by the Directors as at 31 December 2014 and remained in line with previous independent valuations.

##### ***Capital management and funding***

As part of the IPO and ASX listing the Fund entered into a new \$100.0 million syndicated debt facility with Bankwest and National Australia Bank. The net proceeds of the Burwood Sale were utilised to pay-down debt. As at 31 December 2014, the debt facility was drawn to \$10.5 million, which represents a gearing ratio of 4.3% based on the most recent external valuations.

On 16 January 2015, the Fund reset the interest rate swap agreements with National Australia Bank ("NAB") and Bankwest. The new swap agreements have an extended term (from May 2017 to January 2020), a reduced total notional value (from \$86.5 million to \$70 million) and have reduced the Fund's all-in interest cost<sup>2</sup> from 4.6 to 4.1%<sup>3</sup>.

1. As at 31 December 2014, the Fund had exchanged conditional contracts for the acquisition of B8, 576 Swan Street, Richmond VIC. The property was settled on 17 February 2015.

2. All-in interest cost includes interest rate swaps, margin and line fees.

3. On a pro forma basis, post settlement of the property situated at B8, 576 Swan Street, Richmond VIC.

## 360 Capital Office Fund and its controlled entities

### Responsible Entity report

#### For the half year ended 31 December 2014

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On 22 January 2015, the Fund in agreement with Bankwest and NAB, decreased the syndicated debt facility limit from \$100 million to \$80 million.

On 5 December 2014 Unitholders approved the on-market buy-back of up to 15.0% or 11,655,018 of the Units on Issue. The Fund commenced the on-market buy back on 22 December 2014 acquiring 405,190 Units at a Volume Weighted Average Price of \$2.06 (a total cash consideration of \$834,691). A further 4,015,177 units (\$8,270,675) were bought back and settled in January 2015 bringing the total number of units bought back since 5 December 2014 to 4,420,367 (5.7%).

#### **Summary & Outlook**

The low interest rate environment has continued to increase investor demand in commercial office assets, however there remains a disconnect between capital markets and real estate fundamentals as tenant demand remains somewhat subdued in line with the broader economy.

The Fund is well placed to take advantage of both on and off market transaction opportunities, utilising 360 Capital Group's reputation and network to continue to grow and diversify the Fund's earnings base.

#### **Distributions**

Distributions declared during the half year ended 31 December 2014 are as follows:

	<b>31 December 2014 \$'000</b>	<b>31 December 2013 \$'000</b>
September 2014 quarter 4.25 cents per unit paid 24 October 2014	3,302	-
December 2014 quarter 4.25 cents per unit paid 23 January 2015	3,285	-
<b>Total distributions</b>	<b>6,587</b>	<b>-</b>

#### **Buy back arrangements**

As detailed in the Fund constitution, the Responsible Entity is not under any obligation to buy back, purchase or redeem units from unitholders. On 5 December 2014, unitholders approved a resolution for an on-market buy back of up to 15.0% of the current units on issue. As at 31 December 2014, the Fund had bought back 405,190 units for a total consideration of \$834,691 at the applicable daily market rate per unit. A further 4,015,177 units (\$8,270,675) were bought back and settled in January 2015 bringing the total number of units bought back since 5 December 2014 to 4,420,367 (5.7%).

#### **Number of units on issue**

The total number of units on issue in the Fund as at 31 December 2014 was 77,294,928 (30 June 2014: 77,700,118).

#### **Significant changes in state of affairs**

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Fund that occurred during the half year under review other than those listed above or elsewhere in the Responsible Entity report.

#### **Events subsequent to balance date**

No other matters or circumstances apart from those already mentioned in the Responsible Entity Report have arisen since the end of the half year which have significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial periods.

#### **Rounding of amounts**

The Fund is an entity of the kind referred to in Class Order 98/100 issued by the Australian Securities and Investments Commission ("ASIC"). In accordance with that Class Order, amounts in the interim financial report and Responsible Entity report have been rounded to the nearest thousand dollars, unless otherwise stated.

**360 Capital Office Fund and its controlled entities**

**Responsible Entity report**

**For the half year ended 31 December 2014**

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**Auditor's independence declaration**

The auditor's independence declaration required under Section 307C of the Corporations Act 2001 is set out on page 7 and forms part of the Responsible Entity report for the half year ended 31 December 2014.

This report is made in accordance with a resolution of the Directors.



**Tony Robert Pitt**  
Director

Sydney  
18 February 2015



**Graham Ephraim Lenzner**  
Director



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## Auditor's Independence Declaration to the Directors of 360 Capital Investment Management Limited as Responsible Entity for 360 Capital Office Fund

In relation to our review of the financial report of 360 Capital Office Fund for the half-year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Mark Conroy  
Partner  
18 February 2015



**360 Capital Office Fund and its controlled entities**  
**Consolidated interim statement of profit or loss and other comprehensive income**  
**For the half year ended 31 December 2014**

		<b>31 December</b>	<b>31 December</b>
		<b>2014</b>	<b>2013</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue from continuing operations</b>			
Rental income	3	10,202	5,819
Finance revenue		72	35
<b>Total revenue from continuing operations</b>		<b>10,274</b>	<b>5,854</b>
<b>Other income</b>			
Net gain on fair value of investment properties	4	-	4,502
Net gain on fair value of rental guarantee		311	-
Net gain on fair value of derivative financial instruments		-	208
<b>Total other income</b>		<b>311</b>	<b>4,710</b>
<b>Total revenue from continuing operations and other income</b>		<b>10,585</b>	<b>10,564</b>
Investment property expenses		1,868	1,316
Management fees	14	736	466
Other administration expenses		267	298
Finance costs	5	1,491	3,881
Net loss on sale of investment properties		1,019	-
Net loss on fair value of investment properties	4	741	-
Net loss on fair value of derivative financial instruments		811	-
<b>Net profit from continuing operations</b>		<b>3,652</b>	<b>4,603</b>
<b>Total comprehensive income for the half year</b>		<b>3,652</b>	<b>4,603</b>
<b>Earnings per unit - basic and diluted - cents per unit</b>	<b>6</b>	<b>4.7</b>	<b>2,313.5</b>

The above consolidated interim statement of profit or loss and other comprehensive income should be read with the accompanying condensed notes.

**360 Capital Office Fund and its controlled entities**  
**Consolidated interim statement of financial position**  
**As at 31 December 2014**

		<b>31 December</b>	<b>30 June</b>
		<b>2014</b>	<b>2014</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Current assets</b>			
Cash and cash equivalents		2,935	4,928
Receivables		2,991	473
Investment property – held for sale	8	-	80,000
<b>Total current assets</b>		<b>5,926</b>	<b>85,401</b>
<b>Non-current assets</b>			
Investment properties	9	168,018	167,630
Rental guarantee	9	5,482	5,870
<b>Total non-current assets</b>		<b>173,500</b>	<b>173,500</b>
<b>Total assets</b>		<b>179,426</b>	<b>258,901</b>
<b>Current liabilities</b>			
Trade and other payables		1,918	2,433
Distribution payable		3,285	3,302
<b>Total current liabilities</b>		<b>5,203</b>	<b>5,735</b>
<b>Non-current liabilities</b>			
Borrowings	10	9,918	85,902
Derivative financial instruments		1,730	919
<b>Total non-current liabilities</b>		<b>11,648</b>	<b>86,821</b>
<b>Total liabilities</b>		<b>16,851</b>	<b>92,556</b>
<b>Net assets</b>		<b>162,575</b>	<b>166,345</b>
<b>Equity</b>			
Issued units	11	338,087	338,922
Accumulated losses		(175,512)	(172,577)
<b>Total equity</b>		<b>162,575</b>	<b>166,345</b>

The above consolidated interim statement of financial position should be read with the accompanying condensed notes.

**360 Capital Office Fund and its controlled entities**  
**Consolidated interim statement of changes in equity**  
**For the half year ended 31 December 2014**

	Note	Issued units \$'000	Accumulated losses \$'000	Total equity \$'000
<b>Balance at 1 July 2014</b>		338,922	(172,577)	166,345
Total comprehensive income for the half year		-	3,652	3,652
		338,922	(168,925)	169,997
<b>Transactions with unitholders in their capacity as unitholders</b>				
Distributions paid and payable	2	-	(6,587)	(6,587)
Unit buy back	11	(835)	-	(835)
		(835)	(6,587)	(7,422)
<b>Balance at 31 December 2014</b>		<b>338,087</b>	<b>(175,512)</b>	<b>162,575</b>
<b>Balance at 1 July 2013</b>		189,289	(225,674)	(36,385)
Total comprehensive income for the half year		-	4,603	4,603
		189,289	(221,071)	(31,782)
<b>Transactions with unitholders in their capacity as unitholders</b>				
Distributions paid and payable		-	-	-
		-	-	-
<b>Balance at 31 December 2013</b>		<b>189,289</b>	<b>(221,071)</b>	<b>(31,782)</b>

The above consolidated interim statement of changes in equity should be read with the accompanying condensed notes.

**360 Capital Office Fund and its controlled entities****Consolidated interim statement of cash flows****For the year ended 31 December 2014**

		<b>31 December</b>	<b>31 December</b>
		<b>2014</b>	<b>2013</b>
	<b>Notes</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		12,566	5,936
Payments to suppliers (inclusive of GST)		(4,629)	(2,596)
Finance revenue		72	35
Finance costs		(1,678)	(2,763)
<b>Net cash inflows from operating activities</b>	<b>13</b>	<b>6,331</b>	<b>612</b>
<b>Cash flows from investing activities</b>			
Payments for additions to existing investment properties		(1,126)	(8)
Payments for acquisition of investment properties		(2,081)	-
Net proceeds from disposal of investment properties		78,931	-
<b>Net cash inflows/(outflows) from investing activities</b>		<b>75,724</b>	<b>(8)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	10	2,000	-
Repayment of borrowings	10	(78,052)	(333)
Payments for unit buy back		(1,335)	-
Payments for borrowing costs		(56)	-
Distributions paid to unitholders		(6,605)	-
<b>Net cash outflows from financing activities</b>		<b>(84,048)</b>	<b>(333)</b>
Net (decrease)/increase in cash and cash equivalents		(1,993)	271
Cash and cash equivalents at the beginning of the half year		4,928	2,467
<b>Cash and cash equivalents at the end of the half year</b>		<b>2,935</b>	<b>2,738</b>

The above consolidated interim statement of cash flows should be read with the accompanying condensed notes.

**360 Capital Office Fund and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2014**

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**Note 1: Basis of preparation of half year report**

Basis of preparation

The interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*. The general purpose financial statements are for the entity 360 Capital Office Fund and its controlled entities (“the Fund”). The Fund is a listed Fund established and domiciled in Australia. The Responsible Entity of the Fund is 360 Capital Investment Management Limited. The registered office and the principal place of business is Level 8, 56 Pitt Street, Sydney NSW 2000 Australia. The nature of operations and principal activities of the Fund are disclosed in the Responsible Entity Report.

The interim financial report does not include all of the notes and information required for a full annual financial report and should be read in conjunction with the annual financial report for the year ended 30 June 2014.

The interim financial report was authorised for issue by the Board on 18 February 2015.

Changes in accounting policy

The principal accounting policies adopted in the preparation of the interim financial report are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below.

As a result of new or revised accounting standards which became effective for the financial reporting year commencing 1 July 2014, the Fund has changed some of its accounting policies. The affected policies and standards that are applicable to the Fund are:

- AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities;
- AASB 2013-3 Amendments to AASB 136- Recoverable Amount Disclosures for Non-Financial Assets;
- AASB 2013-4 Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting;
- AASB 2014-1 Improvements to AASBs 2010-2012 cycle; and
- AASB 2014-1 Improvements to AASBs 2011-2013 cycle.

For the financial period, the adoption of these amended standards has no material impact on the financial statements of the Fund.

The following new accounting standards, amendments to standards and interpretations have been issued, but are not mandatory as at 31 December 2014. They are available for early adoption, but have not been applied in preparing these financial statements. The Fund plans to adopt these standards on the effective date. The impact of these new standards and interpretations are as follows:

- AASB 9 – *Financial Instruments* (Effective January 1, 2018). This standard includes requirements to simplify the approach for the classification and measurement of financial assets. The Responsible Entity is currently assessing the impact on the Fund.
- IFRS 15 – *Revenue from Contracts with Customers* (Effective January 1, 2017). This standard establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The Responsible Entity is currently assessing the impact on the Fund.

These recently issued or amended standards are not expected to have a significant impact on the amounts recognized in these financial statements when they are restated on application of these new accounting standards, except where disclosed above. The Fund has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

**360 Capital Office Fund and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2014**

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**Note 1: Basis of preparation of half year report (continued)**

Rounding of amounts

The Fund is an entity of the kind referred to in ASIC Class Order 98/100, and in accordance with that Class Order, amounts in the interim financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

**Note 2: Distributions**

Total distributions paid or payable to unitholders by the Fund:

	<b>31 December 2014 \$'000</b>	<b>31 December 2013 \$'000</b>	<b>31 December 2014 Cents per unit</b>	<b>31 December 2013 Cents per unit</b>
Distributions to unitholders	6,587	-	8.5	-

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**Note 3: Rental income**

	<b>31 December 2014 \$'000</b>	<b>31 December 2013 \$'000</b>
Rent	10,207	5,635
Straight-lining of lease revenue	45	298
Amortisation of incentives and leasing fees	(50)	(114)
	<b>10,202</b>	<b>5,819</b>

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**Note 4: Net (loss)/gain on fair value of investment properties**

	<b>\$'000</b>	<b>\$'000</b>
Fair value loss on non-current assets held for sale	(634)	-
Fair value (loss)/gain on investment properties	(107)	4,502
	<b>(741)</b>	<b>4,502</b>

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**360 Capital Office Fund and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2014**

**Note 5: Finance costs**

	\$'000	\$'000
Interest paid or payable on debt facilities	1,366	3,680
Amortisation of capitalised borrowing costs on debt facilities	125	201
	1,491	3,881

**Note 6: Earnings per unit**

	31 December 2014 ¢	31 December 2013 ¢
Basic and diluted earnings per unit	4.7	2,313.5
	\$'000	\$'000
<b>Basic and diluted earnings</b>		
Net profit attributable to unitholders	3,652	4,603
	000's	000's
<b>Weighted average number of units</b>		
Weighted average number of units	77,694	199

Earnings for the half year ended 31 December 2013 were 2.3 cents per unit before the unit consolidation. The comparative has been adjusted to 2,313.5 cents per unit for the 24 March 2014 "1,000 to 1 unit consolidation". The weighted average number of units on issue in the half year ended 31 December 2013 has also been adjusted from 198,986,314 to 198,986 to reflect the consolidation of units.

**Note 7: Segment reporting**

The Fund invests solely in office properties within Australia.

The Chief Operating Decision Maker, being the Managing Director of the Responsible Entity, monitors the performance and results of the Fund at a total Fund level. As a result, the Fund has only one segment. Operating profit is a financial measure which is not prescribed by AAS and represents the profit under AAS adjusted for specific non-cash items and other significant items which management consider to reflect the core earnings of the Fund and is used as a guide to assess the Fund's ability to pay distributions to unitholders.

**360 Capital Office Fund and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2014**

**Note 7: Segment reporting (continued)**

The following table summarises key reconciling items between statutory profit attributable to the unitholders of the Fund and operating profit.

	<b>31 December</b>	<b>31 December</b>
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Profit attributable to the unitholders of the Fund</b>	<b>3,652</b>	<b>4,603</b>
<b>Specific non-cash items</b>		
Net gain on fair value of investment properties	741	(4,502)
Net gain on fair value of rental guarantee net of cash received	388	-
Net loss/(gain) on fair value of derivative financial instruments	811	(208)
Amortisation of borrowing costs	125	201
Straight-lining of lease revenue	(45)	(298)
Amortisation of incentives and leasing fees	50	114
<b>Significant items</b>		
Net loss on sale of investment property	1,019	-
<b>Operating profit (profit before specific non-cash and significant items)</b>	<b>6,741</b>	<b>(90)</b>
Weighted average number of units ('000)	77,694	199
<b>Operating profit/(loss) per unit (profit before specific non-cash and significant items) (EPU) – cents</b>	<b>8.7</b>	<b>(44.6)</b>

The operating loss for the half year ended 31 December 2013 was 0.04 cents per unit before the unit consolidation. The comparative has been adjusted to 44.6 cents per unit for the March 2014 "1,000 to 1 unit consolidation". The weighted average number of units on issue in the half year ended 31 December 2013 has also been adjusted from 198,986,314 to 198,986 to reflect the consolidation of units.

**Note 8: Investment property - held for sale**

	<b>31 December</b>	<b>30 June</b>
	<b>2014</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Railway Parade, Burwood, NSW	-	80,000
	-	80,000
Less: lease income receivable	-	(1,164)
	-	78,836

The Fund settled the sale of 52-56 Railway Parade, Burwood, to a private developer for \$80.0 million on 2 October 2014 with the majority of the net proceeds being used to reduce debt.



**360 Capital Office Fund and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2014**

**Note 9: Investment properties**

	Date of acquisition	Book value		Capitalisation rate		Discount rate		Date of last external valuation	Last external valuation \$'000
		31 December 2014	30 June 2014	31 December 2014	30 June 2014	31 December 2014	30 June 2014		
		\$'000	\$'000	%	%	%	%		
<b>Investment property valuations</b>									
485 Kingsford Smith Drive, Hamilton, QLD	Apr 14	64,000	64,000	8.00	8.00	8.75	8.75	Jun 14	64,000
154 Melbourne St, South Brisbane, QLD	Apr 14	75,000	75,000	8.00	8.00	8.75	8.75	Jun 14	75,000
33 Allara St, Canberra, ACT	Dec 05	34,500	34,500	10.25	10.25	11.50	11.50	May 14	34,500
<b>Total</b>		<b>173,500</b>	173,500						
<b>Comprises:</b>									
Fair value of Rental guarantee receivable		5,482 <sup>1</sup>	5,870 <sup>1</sup>						
Investment Properties		168,018	167,630						
<b>Total</b>		<b>173,500</b>	173,500						
Less lease income receivable		(1,584)	(1,503)						
		<b>171,916</b>	171,997						

<sup>1</sup> The rental guarantee is measured as the present value of the expected future cash flows under the guarantee arrangements. The rental guarantee has been capitalised and relates to the agreement with the vendor of the property at 485 Kingsford Smith Drive, Hamilton Harbour, Brisbane.

**360 Capital Office Fund and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2014**

**Note 9: Investment properties (continued)**

	<b>31 December</b>	<b>30 June</b>
	<b>2014</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Movement during the period:</b>		
Opening balance as at 1 July	173,500	94,800
Transfer to investment property held for sale	-	(60,300)
Additions to investment properties	338	-
Acquisitions of investment properties and associated costs	77	143,298
Net gain/(loss) on fair value of investment properties	(107)	(4,487)
Net gain on fair value of rental guarantee net of cash received	(388)	(187)
Straight-lining of lease revenue	44	419
Movement in Incentives and leasing fees	44	-
Amortisation of incentives and leasing fees	(8)	(43)
Closing balance	173,500	173,500

On 16 December 2014, the Fund exchanged a conditional contract for the acquisition of B8, 576 Swan Street, Richmond, VIC (Property) for \$46.5 million. On this date a deposit of \$2 million was paid and settlement of the remaining acquisition costs occurred on 17 February 2015 using the Fund's existing debt capacity.

**Note 10: Borrowings**

	<b>31 December</b>	<b>30 June</b>
	<b>2014</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Non-current</b>		
Borrowings - secured	10,528	86,580
Capitalised borrowing costs	(610)	(678)
	9,918	85,902
<b>Borrowings - banks</b>		
Total facility limit	100,000	100,000
Used at end of reporting date	10,528	86,580
<b>Unused at end of reporting date</b>	<b>89,472</b>	<b>13,420</b>

**360 Capital Office Fund and its controlled entities**  
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**Note 10: Borrowings (continued)**

	<b>31 December</b>	<b>30 June</b>
	<b>2014</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Movement during the period:</b>		
Opening balance	86,580	122,615
Repayment of borrowings	(78,052)	(96,442)
New borrowings	2,000	86,580
Capitalised interest on related party debt (Developments Income Fund)	-	3,588
Related party borrowings forgiven under liquidity proposal (Developments Income Fund)	-	(29,761)
Closing balance	10,528	86,580

As at 31 December 2014 the debt facility was drawn to \$10.5 million, which represents a Loan to Value Ratio ("LVR") of 6.1% based on the most recent external valuations adopted, which complied with the bank covenant of less than 50%.

As at 31 December 2014 the interest cover ratio was calculated to be 5.94 times, which complied with the bank covenant of no less than 2.0 times.

As at 31 December 2014, the Fund had two interest rate swap agreements with Bankwest and National Australia Bank for a total notional value of \$86.5 million. On 16 January 2015, the Fund reset these interest rate swap agreements. The new terms have extended the expiry from May 2017 to January 2020, a reduced total notional value to \$70 million and a reduced fixed rate.

On 22 January 2015, the Fund in agreement with Bankwest and NAB, decreased the syndicated debt facility limit from \$100 million to \$80 million.

These initiatives in the period subsequent to balance date have reduced the Fund's all-in interest cost from 4.6% to 4.1%.

**Note 11: Issued Units**

**(a) Issued units**

	<b>Half Year</b>	<b>Full Year</b>
	<b>31 December</b>	<b>30 June</b>
	<b>2014</b>	<b>2014</b>
	<b>000's</b>	<b>000's</b>
360 Capital Office Fund - Ordinary units issued	77,295	77,700
	<b>\$'000</b>	<b>\$'000</b>
360 Capital Office Fund - Ordinary units issued	338,087	338,922

**360 Capital Office Fund and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2014**

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**Note 11: Issued Units (continued)**

**(b) Movements in issued units**

Movements in issued units of the Fund for the half year ended 31 December 2014 were as follows:

**Movement in number of issued units:**

	<b>Half Year 31 December 2014 000's</b>	<b>Full Year 30 June 2014 000's</b>
Opening balance	77,700	198,986
1 for 1,000 units consolidation on 24 March 2014	-	(198,786)
Capital Raise (IPO) placement on 17 April 2014	-	77,500
Unit buy back	(405)	-
Closing balance	77,295	77,700

**Movement in value of issued units:**

	<b>\$'000</b>	<b>\$'000</b>
Opening balance	338,922	189,289
Capital Raise (IPO) placement on 17 April 2014	-	155,000
Capital Raise costs	-	(5,367)
Unit buy back	(835)	-
Closing balance	338,087	338,922

On 5 December 2014, unitholders approved an ordinary resolution for an on-market buy back of up to 15.0% of the current units on issue. On 22 December 2014, 405,190 units (0.5% of the total in issue) were bought back at a price of \$834,691 (\$2.06 per unit). These units were cancelled on settlement date being the 29<sup>th</sup> of December 2014.

A further 4,015,177 units (\$8,270,675) were bought back in January 2015 bringing the total number of units bought back since 5 December 2014 to 4,420,367 (5.7%).

**360 Capital Office Fund and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2014**

**Note 12: Financial instruments**

**Fair values**

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 31 December 2014:

	Carrying amount		Fair value	
	31 December 2014 \$'000	30 June 2014 \$'000	31 December 2014 \$'000	30 June 2014 \$'000
<b>Financial assets</b>				
Receivables	2,991	473	2,991	473
<b>Total current</b>	<b>2,991</b>	<b>473</b>	<b>2,991</b>	<b>473</b>
<b>Total</b>	<b>2,991</b>	<b>473</b>	<b>2,991</b>	<b>473</b>
<b>Financial liabilities</b>				
Trade and other payables	1,918	2,433	1,918	2,433
Distributions payable	3,285	3,302	3,285	3,302
<b>Total current</b>	<b>5,203</b>	<b>5,735</b>	<b>5,203</b>	<b>5,735</b>
Borrowings	9,918	85,902	10,528	86,580
Derivative financial instruments	1,730	919	1,730	919
<b>Total non-current</b>	<b>11,648</b>	<b>86,821</b>	<b>12,258</b>	<b>87,499</b>
<b>Total</b>	<b>16,851</b>	<b>92,556</b>	<b>17,461</b>	<b>93,234</b>

As at 31 December 2014, the Fund held the following classes of financial instruments measured at fair value:

	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<b>Financial liabilities measured at fair value</b>				
Derivative financial instruments as at 31 December 2014	<b>1,730</b>	-	1,730	-
Derivative financial instruments as at 30 June 2014	<b>919</b>	-	919	-

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy. Described as follows, based on the lowest level input that is significant to the fair value measurements as a whole:

Level 1 – Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities

Level 2 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)

Level 3 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

For financial instruments that are recognised at fair value on a recurring basis, the Fund determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**360 Capital Office Fund and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2014**

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**Note 12: Financial instruments (continued)**

During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

**Valuation techniques**

Derivative financial instruments

For derivatives, as market prices are unavailable the Fund uses valuation models to derive fair value. The models are industry standard and mostly employ a Black–Scholes framework to calculate the expected future value of payments by derivative, which is discounted back to a present value. The models’ interest rate inputs are benchmark interest rates such as the Bank Bill Swap reference rate (“BBSW”) and active broker quoted interest rates in the swap, bond and futures markets. Interest rate volatilities are sourced through a consensus data provider. As such the input parameters into the models are deemed observable, thus these derivatives are categorised as Level 2 instruments.

Borrowings

The fair value of the borrowings is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

**Note 13: Reconciliation of net profit to net cash inflows from operating activities**

	<b>31 December</b>	<b>31 December</b>
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Net profit/(loss) for the half year	3,652	4,603
<u>Adjustment for:</u>		
Net changes in fair value of investment properties	741	(4,502)
Fair value loss/(gain) on derivative financial instruments	811	(208)
Loss on sale of properties	1,019	-
Net gain on fair value of rental guarantee	(311)	
Amortisation of borrowing costs	125	201
Interest capitalised on related party loan	-	1,067
<u>Changes in assets and liabilities:</u>		
Decrease/(Increase) in receivables and prepayments	706	(501)
Increase in trade and other payables	(412)	(119)
Exit fees		71
<b>Net cash inflows from operating activities</b>	<b>6,331</b>	<b>612</b>

**360 Capital Office Fund and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2014**

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**Note 14: Related party transactions**

**Responsible Entity**

On 6 June 2014 the Responsible Entity of the Fund changed from 360 Capital RE Limited to 360 Capital Investment Management Limited, a wholly owned subsidiary of 360 Capital Group Limited.

**Responsible Entity's fees and other transactions**

Under the terms of the constitution, the Responsible Entity is entitled to receive fees in accordance with the product disclosure statement.

<b>Management fees</b>	<b>31 December 2014 \$</b>	<b>31 December 2013 \$</b>
<b>Fees for the half year paid/payable by the Fund:</b>		
Management of the Fund	680,455	364,870
Exit fees	-	70,500
Custodian fees	55,878	25,340
Fund recoveries	76	5,395
	<b>736,409</b>	<b>466,105</b>
	<b>31 December 2014 \$</b>	<b>30 June 2014 \$</b>
<b>Aggregate amounts due to the Responsible Entity at balance date:</b>		
Management of the Fund	93,271	303,655
Fund recoveries	-	37,224
	<b>93,271</b>	<b>340,879</b>

The Responsible Entity is entitled to a management fee of 0.65% per annum of the gross asset value of the Fund calculated in accordance with the Fund's constitution. The Responsible Entity has elected to charge 0.6% per annum for the period ended 31 December 2014. The management fee calculation changed when the Fund listed on 24 April 2014, up until that date the management fees were charged based on 6% of the gross rental income of the Fund.

Custodian fees are paid to the custodian, also being 360 Capital Investment Management Limited, and calculated in accordance with the constitution at a rate of 0.05% of the Fund's gross assets.

**Transactions with other related parties**

360 Capital Developments Income Fund ("DIF") was a related party of the Fund by virtue of the fact it had the same Responsible Entity.

**360 Capital Office Fund and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2014**

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**Note 14: Related party transactions (continued)**

The Fund had previously entered into a loan agreement with DIF which was due to expire in December 2013; this was extended to 1 April 2014. Interest was capitalised at a rate of 10% per annum. During the half year ended 31 December 2013, \$1.2 million was paid to partially service the interest on the loan. On 9 January 2014, DIF unitholders approved the Liquidity Proposal to assist in the listing and recapitalisation of the 360 Capital Office Fund. Under the Liquidity Proposal, the outstanding loan of \$79,263,513 owing at the time of listing was settled through a forgiveness and repayment plan whereby DIF unitholders elected to receive cash or purchase the Office Fund units at an effective discount of 20% to the price offered to other investors and the general public. An amount of \$49,502,368 was settled in this manner with the remaining \$29,761,145 being waived.

**Unitholdings**

Units held by the Responsible Entity and other Funds managed by and related to the Responsible Entity held units in the Fund as follows:

	<b>31 December 2014</b>	<b>30 June 2014</b>
<b>360 Capital Diversified Property Fund</b>		
Number of units held	2,595,944	264,944
Interest % held	3.36%	0.34%
Distributions paid/payable by the Fund (\$)	121,588	11,260
<b>360 Capital Investment Trust</b>		
Number of units held	16,675,762	16,675,762
Interest % held	21.57%	21.46%
Distributions paid/payable by the Fund (\$)	1,417,440	708,720
<b>360 Capital Investment Management Limited</b>		
Number of units held	2,500,000	2,500,000
Interest % held	3.23%	3.22%
Distributions paid/payable by the Fund (\$)	212,500	106,250
<b>360 Capital AREIT Fund</b>		
Number of units held	9,075	-
Interest % held	0.01%	-
Distributions paid/payable by the Fund (\$)	771	-

**Remuneration of Directors and Key Management Personnel of the Responsible Entity**

The Fund does not employ personnel in its own right however it is required to have an incorporated Responsible Entity to manage the activities of the Fund and this is considered the Key Management Personnel ("KMP"). The Directors of the Responsible Entity are KMP.

The Responsible Entity is entitled to a management fee which is calculated as a proportion of Gross Asset Value.

No compensation is paid directly by the Fund to Directors or to any KMP of the Responsible Entity.



**360 Capital Office Fund and its controlled entities**  
**Condensed notes to the interim financial report**  
**For the half year ended 31 December 2014**

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**Note 14: Related party transactions (continued)**

**Loans to Directors and Key Management Personnel of the Responsible Entity**

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the Directors and KMP or their personally related entities at any time during the half year.

**Other transactions with Directors and Specified Executives of the Responsible Entity**

From time to time, Directors and KMP or their personally related entities may buy or sell units in the Fund. These transactions are subject to the same terms and conditions as those entered into by other Fund investors.

**Management personnel Unit holdings**

The number of units held directly or indirectly by Directors, Key Management Personnel and their related parties as at 31 December 2014 are as follows:

Name	Position	30 June	Acquisitions	31 December
		Equity Holding		Equity Holding
David van Aanholt	Director	Nil	Nil	Nil
Tony Robert Pitt	Director	100,000	Nil	100,000
William John Ballhausen	Director	25,000	25,000	50,000
Graham Ephraim Lenzner	Director	Nil	Nil	Nil
Andrew Graeme Moffat	Director	Nil	Nil	Nil

**Note 15: Events subsequent to balance date**

In January 2015, the Fund bought back units in accordance with the on-market buy back approved by unitholders on 5 December 2014. Refer to Note 11(b) for further details.

In January 2015, the Fund reset interest rate swap agreements and decreased the syndicated debt facility limit. Refer to Note 10 for further details.

In February 2015, the Fund settled the acquisition of the property situated at B8, 576 Swan Street, Richmond, VIC. Refer to Note 9 for further details.

There have been no circumstances that have arisen since the end of the half year which have significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

**360 Capital Office Fund and its controlled entities**

**Directors' declaration**

**For the half year ended 31 December 2014**

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1) The Directors of 360 Capital Investment Management Limited, the Responsible Entity, declare that:

(a) The consolidated financial statements and notes that are set out on pages 12 to 24, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half year ended on that date; and

(ii) complying with AASB 134: *Interim Financial Reporting* and *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



**Tony Robert Pitt**  
Director



**Graham Ephraim Lenzner**  
Director

Sydney  
18 February 2015

To the unitholders of 360 Capital Office Fund

## Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of 360 Capital Office Fund ('the Fund'), which comprises the statement of financial position as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Fund and the entities it controlled at the half-year end or from time to time during the half-year.

### Directors' Responsibility for the Interim Financial Report

The directors of 360 Capital Investment Management Limited, the Responsible Entity of the Fund, are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of 360 Capital Office Fund and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

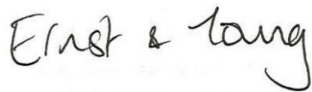
### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which follows the Responsible Entity Report.

## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of 360 Capital Office Fund is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Mark Conroy  
Partner  
Sydney  
18 February 2015